



TITLE:

MALTHUS'S THEORIES IN CLASSICAL ECONOMICS

AUTHOR(S):

Kishimoto, Seijiro

CITATION:

Kishimoto, Seijiro. MALTHUS'S THEORIES IN CLASSICAL ECONOMICS.
Kyoto University Economic Review 1950, 20(1): 1-37

ISSUE DATE:

1950-04

URL:

<https://doi.org/10.11179/ker1926.20.1>

RIGHT:

VOLUME XX

NUMBER 1

Kyoto University Economic Review

MEMOIRS OF THE FACULTY OF ECONOMICS

IN

THE UNIVERSITY OF KYOTO

APRIL 1950

Malthus's Theories in Classical Economics

Prof. S. Kishimoto 1

Foreign Capital and the Japanese Capitalism

after the World War I *Prof. Y. Horie* 38

PUBLISHED BY
THE FACULTY OF ECONOMICS
KYOTO UNIVERSITY
KYOTO JAPAN

KYOTO UNIVERSITY ECONOMIC REVIEW

MEMOIRS OF THE FACULTY
OF ECONOMICS IN THE
UNIVERSITY OF KYOTO

VOLUME XX

(April 1950)

NUMBER 1

MALTHUS'S THEORIES IN CLASSICAL ECONOMICS

By SEIJIRO KISHIMOTO

CONTENTS:

- I The Characteristics of Malthus's Theory of Method
- II The Characteristics of Malthus's Theory of Value
- III The Significance of the Theory of Increased Wealth
- IV T. R. Malthus and J. M. Keynes

I. THE CHARACTERISTICS OF MALTHUS'S THEORY OF METHOD

The classical economics in England, starting from Adam Smith, developed into the two currents of the Malthusian and Ricardian lines. Though the development became marked after the days of Smith, his economics may be said to have contained the two elements which were actually developed by Malthus and Ricardo into their respective lines. 'These two political economists spring from Adam Smith, just as theologians start off from the Bible.'¹⁾ The two therefore might be called representative classical economists following in the footsteps of Smith, but, at the same time holding

¹⁾ J. Bonar, *Malthus and his Work*, 2nd ed. p. 209

opposite view-points. Generally speaking, the Smithian economics was theoretical as well as positive. Herein lies the origin of both the Malthusian positive economics and the Ricardian theoretical economics. And yet both were not the mere repetitions of the Smithian theories, making their own advance with the passing of the times. Smith developed the philosophy of wealth at the dawn of the Industrial Revolution, while Malthus probed into the cause of poverty at the zenith of the same period. And the Smithian economics gave priority to the theory of production, while the Ricardian developed the theory of distribution. The latter was centered around how to distribute the produced wealth among the classes of society. The Smithian theory as a whole showed to a great extent a theological and metaphysical tendency, from which both Malthus and Ricardo broke away either positively or theoretically. Those three were one, however, in sticking to individualism and liberalism.

Malthus's positivism was thus the one which was thoroughly developed from one of the two elements of Smith, and Malthus was therefore categorically opposed to Ricardo. What then was its substance? The best product of Malthus's positivism is certainly his work, 'An Essay on the Principles of Population'. The book reads in part to the following effect: it is an acknowledged truth in philosophy that a just theory will always be confirmed by experiment. Yet will there occur in practice a lot of conflicts and complicated circumstances such as almost unforeseeable by the most wise and penetrating man. There are few cases therefore where any theory can be pronounced just when it has not stood the test of experience. Thus viewed, it follows that an untried theory could not be suggested as probable, much less as just, unless all its opposing arguments have been well examined, and clearly and consistently confuted.¹²⁾

As for the question of human advancement that Malthus took up for discussion in his "Principles of Population", he had read with much interest a few essays on the perfectibility of man and society. He was pleased and fascinated with the charming picture they set forth. He ardently wished for such happy improvements. But he thought great and unconquerable difficulties lay in the way to reach them. In other words, he supposed that the above speculations were beyond proof with evidence.

Malthus did indeed doubt neither talents nor candour of the

¹²⁾ R. Malthus, *An Essay on the Principles of Population*, 1st ed, 1798, pp. 6-7

advocates for the perfectibility of mankind. However, their ability and penetration is one thing, and their rightness in arguments is another. In entering upon the argument, Malthus premises that he puts out of the question for the time being all mere conjectures. For example, a writer may tell us he thinks that man will ultimately become an ostrich. We can not here properly contradict him. But before he can expect to make any reasonable person agree with his view, he ought to show that the necks of mankind have been gradually becoming longer, that the lips have grown harder and more prominent, that the legs and feet are daily altering their shape, and that the hair is beginning to change into stubs of feathers. Till the probability of so wonderful a conversion can be shown, therefore, it is certainly a waste of time and eloquence to expatiate on the happiness of man in such a state, to describe his powers of running and flying, to paint him in a condition where all small luxuries would be despised, where he will be engaged only in collecting the necessaries of life, and where consequently each man's share of labour would be light and his portion of leisure ample.

Starting now from no mere conjectures, but from the two postulates that no one can deny from the long experience of mankind, Malthus resorted to positive methods in order to establish the steady and unshaken principles on population. First of the postulata is that food is necessary to the existence of man. Secondly, that the passion between the sexes is necessary, and will remain nearly in its present state. To Malthus these two laws seem to have been fixed laws of our nature since we have had any knowledge of mankind, and that as we have not hitherto seen any alteration in them, we cannot conclude that they will ever cease to be what they are now, except when they are caused by an immediate act of God who first created the system of the universe and for the benefit of his creatures still executes all its various operations in accordance with fixed laws. Assuming then these postulata as granted, Malthus has drawn the conclusion with evidence that the power of population is much greater than the power of the earth to produce subsistence for man.

The assumed postulata having been regarded as the fundamental principles which pervade human nature, the conclusion drawn from them was also considered the steady and unshaken law. And they are the natural laws applicable not only to man, but to both the animal and vegetable kingdoms. The race of man cannot therefore

escape from it with any efforts of reason. As a result there is waste of seed, sickness, and premature death among plants and animals, with misery and vice among mankind. Having the principles of population thus drawn with evidence from the steady postulata, we will have to turn down the arguments which are in favor of the perfectibility of man and society, and accordingly our foresight on social advancement will become pessimistic. Being reached with evidence, the conclusion may well be tinged with a melancholy hue. In the preface to 'The Principles on Population', Malthus said with conviction that these dark tints were found really in the picture of life, and not drawn with a prejudiced eye or an inherent whims of disposition. The greater part of 'The Principles on Population,' therefore, is composed of both evidential arguments, which expatiate on the process of reaching the conclusion concerning the principles on population from the steady and unshaken postulata, and refutations without any evidence against their opposing arguments. It is of course uncertain whether the starting postulata are the unshaken axioms or the principles on population are a right conclusion. However, Malthus plainly intended to proceed with his positive methods of study, and this above all was characteristic of his political economy.

In positivism, theory should precede evidence by which the former is to be proved. The theory is sometimes assumed in a simple way, and accordingly can be modified, disproved, or confirmed with evidence, which itself is no theory at all. Theory preceding evidence is neither mere conjecture nor assumption, but has indeed a definite foundation upon which it is to be formed, only the evidence serving to make practical occurrences connected with the theory. On the contrary, Malthus, laying emphasis upon evidence, based the value of theory on practical occurrences rather than on the things upon which the theory stands. While giving priority to practical occurrences, therefore, he assumed a negative attitude toward theoretical generalization. Such an attitude has greatly affected his 'The Principles of Political Economy', which was necessarily in need of a theoretical composition.

In the 'Principles of Political Economy', Malthus considers that the principal cause of error and the differences now prevailing among the scientific writers on political economy, seems to be a rash attempt to simplify and generalize. While their more practical opponents draw too hasty inferences from frequently appealing to partial facts, these writers run into a contrary extreme and do not

sufficiently weigh their theories by referring to their rich and comprehensive experience. To people of a certain type, nothing is more fascinating than simplification and generalization. It is indeed desirable in philosophy whenever it can be done consistently with truth. That is the very reason, however, why we in almost every science are likely to be led to crude and premature theories. In political economy too, our desire to simplify has not permitted more than one cause to operate in producing particular effects. And if one cause could account for the most part of a certain phenomena, the whole has been ascribed to it without due attention being paid to the fact that they could not afford being so solved.³⁹

Malthus goes on to argue: we cannot certainly over-estimate Newton's admirable rule that we shall not admit more causes than the one which is necessary for the solution of the phenomena we are considering. The rule itself however does not reject to admit those which really are necessary. Before the shrine of truth which has been discovered by facts and experiences, the finest theories and the fairest classifications must crumble. The chemist of thirty years ago may well regret that new discoveries in the science should disturb his previous systems and arrangements, but he would not be qualified as a philosopher if he does not abandon them ungrudgingly, as soon as the experiments refuting them are well established.

According to Malthus, the tendency to simplify and generalize which does not thus admit the operation of more than one cause will further produce a disinclination to allow of modifications, limitations, and exceptions to a rule. It is an unscientific air indeed not to allow of them, and as a matter of fact there are many important propositions in political economy which absolutely require modifications, limitations, and exceptions. And Malthus is convinced in saying that the frequent combination of complicated causes, the action and reaction of cause and effect on each other, and the necessity of limitations and exceptions in many important propositions constitute in fact the main difficulties of the science, and frequently occasion mistakes in the prediction of results.

In the case of some principal writers on political economy, as Malthus says, the tendency to premature generalization make them hate to test their theories by experience. We must see to it that an undue stress shall not be laid upon isolated facts, or a consistent

³⁹ R. Malthus, *Principles of Political Economy*, 2nd ed. 1836, p.4 et seq.

theory shall not be invalidated by a few discordant appearances whose validity has not yet been properly examined. But it is certain that no theory can be accepted as correct, which is inconsistent with general experience. Then the inconsistency must be either radically false or essentially incomplete. In either case, it can neither be adopted as a satisfactory solution of current phenomena, nor acted upon safely in the future.

Malthus considers that the first business of philosophy is to account for things as they are, and until our theories have been proved, any practical conclusion ought not to be based on them. His steady and unshaken confidence in the theory of population also would not exist, if it was not confirmed by the state of society as it actually exists in every country we know. And in establishing the theory, Malthus says he has confirmed it by appealing to the facts such as mentioned above. In dealing with most of the subjects of political economy, where various and complicated causes are often in operation, it is pre-eminently necessary for us to appeal to this kind of experience. A theory may appear to be correct, and so also under given premises, which may further appear to be the same as those under which the theory will be applied. A hitherto unobserved difference, however, will make its appearance sometimes when the results different from those expected show themselves, and under these circumstances, the theory may well be considered as failing. Therefore, he says that where unexpected causes may be operating and the foreseeable causes are easily subject to great changes in strength and efficacy, an accurate and comprehensive attention to facts is indispensable for the purpose of both preventing the accumulation of erroneous theories, and confirming and sanctioning just and correct theories.

Now, political economy is, according to Malthus, essentially practical and applicable to the common business of human life, and in no branch of human knowledge false views may do more harm or just views do more good than in political economy. The study of the laws of nature is interesting in all its branches, and even the physical laws which govern the very distant parts of the universe and which is hard for man to influence, may be noble and rational objects of curiosity. The laws, however, which control movements of human society will more strongly require our attention, perhaps because they concern the objects we are daily and hourly connected with, and because their effects are always modified by human interference.

Some eminent persons are so much attracted to the general rules of political economy that they do not consider it wise and polite to pay attention to some exceptions, which from time to time happen as they know, fearing that they might thus direct the public attention too much and too often to the exceptions. Malthus, of course, does not agree with them. There is then another group of persons who highly value the acknowledged general rules of political economy as practically useful to the most extensive degree. On the other hand, for instance, in mathematics, chemistry, and every branch of natural science, we encounter such a large number of research necessary to their development and completion, which taken separately seem to be contributing to no useful purpose. It follows therefore that many useful inventions as well as much valuable and improving knowledge would have been lost, if a rational curiosity and a mere love of information had not been generally acknowledged to be a sufficient motive for the search after truth.

In the same vein, Malthus considers that even if further inquiries in political economy do not always bear the rigid application of the test of '*cui bono*', it is by no means conclusive against them. But being in fact so intimately connected in nature with the business of mankind, he believes, propositions of political economy will bear this test rather than those of any other branch of human knowledge. It is certainly a difficult task in many cases to trace distinctly the operations of causes and effects in political economy acting and re-acting on each other, with a view to foreseeing their results and accordingly laying down general rules. But there is scarcely any inquiry concerning these subjects, however deep and remote it may seem at first sight, which is not in some way or other directly connected with practice. It is highly desirable, therefore, that such inquiries should be pursued in order to improve and complete the political economy and then to expect from it the practical advantages. It is furthermore not advisable that any common difficulty or obscurity should be allowed to obstruct those who have enough time and ability for such researches.

In many cases, it may be in fact impossible to make precise predictions of effects due to the complicated causes in operation, the different degrees of strength and efficacy with which they operate, and the numerous unforeseeable circumstances which are likely to occasion interference. However the most important knowledge will be such as able to draw a fairly definite line between the case

where the foreseen effects are certain and the case where they are doubtful, and further in the latter case be able to make a satisfactory explanation of the reasons of such uncertainty. The next in importance is to know what cannot be done, and why we cannot do it. The first is considered to enable us to do a positive good, to strengthen our powers, and to enlarge our happiness; and the second to save us from both the evils of ineffective attempts and the loss and misery that come from perpetual failure.

Such is the inquiry of political economy as characterized by Malthus. One of the specific objects of his '*Principle of Political Economy*', therefore, was said to make some general rules of political economy for practical application by frequently referring to experience and by taking a comprehensive view of all the causes that work together in the occurrence of particular phenomena. But in such a mode of inquiry, we are likely to fall into errors arising from a tendency to simplification. Some appearances, which are in fact merely co-existent and incidental, may be taken as causes. And a theory established on this mistake will be uniting the double disadvantage of being complex and incorrect. Adam Smith had particularly fallen into this error, drawing inferences from the actual appearances which were not warranted by general principles, and that was an error into which Malthus took a special caution not to fall. Being conscious, however, of his liability to this error on the one side, and to that of not referring properly to experience on the other, Malthus considered that his aim would be to pursue as just a mean as possible between the extremes in order to approach the goal of truth.

Though the argument Malthus so far developed is apparently moderate to a high degree, at the same time it is not to be overlooked that his political economy is actually opposed to that of Ricardo's which stands on abstract theories. Malthus himself eventually confessed to be in opposition to Ricardo, notwithstanding he is endeavor to abstain from controversial arguments in his '*Principles on Political Economy*'. The opposition between both was noticed by Ricardo as well, which was referred to in his letter of 1817 to Malthus. According to the letter, one great cause of their difference in opinion on the subjects which they had so often discussed was that Malthus had always in his mind the immediate and temporary effects of particular changes, while Ricardo put these immediate and temporary effects quite aside, and fixed his whole attention on the permanent state of things which would result from

them. And the letter went on to say that perhaps Malthus estimated these temporary effects too highly, while Ricardo was too much disposed to undervalue them. To which Malthus agreed frankly in his reply too.⁴⁾

Their opposition showed itself not only in preference given to either general rules or exceptions, but also in the fact that Ricardo tried to penetrate the essence behind outward appearances, while Malthus always followed after the changing forms of phenomena, thereby causing the formation of the two quite different political economics. From this view-point, will be made an attempt to view the fundamental theories of Malthusian political economy.

II. THE CHARACTERISTICS OF MALTHUS'S THEORY OF VALUE

Let us see what Malthus thinks about value. Malthus starts to think, just as Smith has done, by distinguishing value in use from value in exchange.⁵⁾ Value in exchange is the relation of one commodity to others in exchange, and it is dependent upon the will and power to exchange of the parties concerned. When the reciprocal desire exists between them, the rate of exchange will depend upon their reciprocal relative estimation founded on the desire and difficulty to possess. And as the desires of individuals and their powers of producing are of necessity different, the contrasts thus made will probably be very different, at the outset, from each other. After a certain period of repeated exchanges, however, a sort of average might be expected to be formed, thereby establishing a current value of all commodities.

Each commodity will thus measure the relative values of all others, and be in turn measured by any of them. Each commodity also represents a value. Each commodity will thus have more or less accurately and conveniently the two essential properties of money, that is, those of being both a representative and a measure of value. Of all the commodities to be exchanged, precious metals are generally selected as money, and the kind of value designated by them is called nominal value or price.

In comparing two commodities, the power of one to purchase

⁴⁾ Letters of D. Ricardo to T.R. Malthus 1810-1823, ed. by J. Bonar, 1887, p.127, J.M. Keynes, *Essays in Biography*, 1933, p.139,

⁵⁾ R. Malthus, *Principles of Political Economy*, 2nd ed. 1836, p. 50 et seq.

the other, as Malthus mentioned above, will depend upon two kinds of causes, that is, first, upon the causes that affect the desire to possess and the difficulty of possessing one of them, and secondly, upon the causes that affect the desire to possess and the difficulty of possessing the other. The causes which affect the desire to possess and the difficulty of possessing a commodity may be called the intrinsic cause of its power of purchasing. On the other hand, the causes which affect the desire to possess and the difficulty of possessing all the other commodities with which the first one can be exchanged may be called the extrinsic cause of its power of purchasing. The exchangeable value of a commodity can only be proportionate to its general power of purchasing so long as the commodities with which it is exchanged continue to be obtained with the same facility. As it is known by experience, however, that a great number of commodities do not continue to be obtained with the same facility, Malthus considers that when we speak of the variations in the exchangeable value of a particular commodity, they refer almost invariably to its power of purchasing arising from intrinsic causes.

As mentioned above by Malthus, exchangeable value is the relation of one commodity to others in exchange. And when the introduction of money has made distinction between buyers and sellers, the demand may be defined as the will of buyers combined with their power to buy, and the supply as the quantity of commodities combined with the desire to sell them. Viewed thus, the value of commodities in money or their prices will be determined by their demand compared with their supply. In this connection we should never forget that when prices are said to be determined by demand and supply, it is not meant that they are determined either by the demand alone or by the supply alone, but by their relation to each other.

Therefore, the factor which raises prices is not merely the extent of actual demand, nor even the extent of actual demand compared with the extent of the actual supply. It is just such a change in the relation between demand and supply, as makes it necessary for us to express a greater demand when we want either to divide peacefully an actual produce, or to prevent the future produce of the same kind from becoming short. In the same way, the factor which lowers prices is merely neither the extent of actual supply, nor the extent or supply compared with the demand, as make it necessary for prices to fall, when we want to remove a temporary

abundance, or to prevent a constant excess of supply which would accompany a decline in the costs of production if the price of produce does not proportionately decrease. If the terms demand and supply be understood used in the way mentioned, as Malthus considers, no case will be found where they will not determine any price, whether temporary or permanent.

In opposition to the preceding view there stands a view that the permanent prices of a great number of commodities will be determined by their production cost. This is undoubtedly true, as Malthus says, if the production cost includes all the component parts of price which were stated by Adam Smith. Yet, it is just the principle of demand and supply that determines the prices of commodities, independent of any considerations of cost and of the ordinary wages, profits, and rent spent in their production. And this principle does not work only permanently on the kind of commodities which can be considered to be monopolies. It is found to work temporarily and immediately as well on all commodities, and strikingly and pre-eminently also on all kinds of raw produce. It is therefore to be admitted that with regard to a class of commodities of the greatest extent the current market prices are, when fixed, determined by a principle different from the cost of production.

There is then another class of commodities, such as manufactured goods, where current market prices more often coincide with the costs of production and particularly when the raw material is cheap. Even in this case, however, our daily experience shows that any alteration in the relation of demand to supply will plainly overcome the influence of these costs. Furthermore, when we examine the matter more closely, we will find that the cost of production itself only influences the prices of these commodities, considering that the payment of this cost is just the necessary condition of their continued supply. If this be true, then, Malthus concludes that the law of demand and supply will determine what Adam Smith called natural price as well as what he called market price.

Malthus thinks that no change can take place in the market price of commodities, when some previous change does not occur in the relation of demand to supply. He then goes on to question whether the same argument is true in reference to natural prices. This question should of course be determined by paying due attention to the nature of the change occasioned in the state of demand and supply by an alteration in the cost of production, and particularly to the circumstances which specifically and immediately has

caused the price to change. In this connection, it may be allowed that when the cost of production decreases, a fall of price will almost invariably result. But what is it that specifically makes the prices of commodities to fall? Malthus answers that it is an actual or contingent excess of supply. In the same way, it may be acknowledged that increase in the cost of production causes the prices of commodities to rise. But what is it that specifically makes the prices to rise? Malthus answers that it is also an actual or contingent shortage of supply. Wanting these actual or contingent variations of the supply; in other words, the extent of the supply remaining just the same without excess or shortage, whether the cost of production rises or falls, there would then be no slightest reason for supposing that any variation of price would take place.

Thus viewed, Malthus's argument comes to the conclusion that the relation of supply to demand is the principle predominantly determining market or natural price, and that the cost of production can be only subordinate to it in operation, that is, because it affects the ordinary relation of supply to demand. In Malthus's positivism, it is not considered necessary to resort to imaginary cases in order to fortify this conclusion, considering that actual experience shows the principle in the clearest light.

The most conspicuous instance that the cost of production is not decisive in fixing prices is found, according to Malthus, in the artificial value which is given to bank-notes by limiting their amount. This has always been found true in our experience. If we can limit the supply of notes, so that it will not exceed the quantity of gold which would circulate if the currency were metallic, the notes will always be kept at the same value as gold. It is the same principle which Ricardo acknowledged as well. And Malthus is confident Ricardo has admitted that if this limitation could be completely made even when the paper is not exchangeable for gold, its value would not be altered as long as the same demand for a circulating medium continued. If the bank-notes, Malthus continues, which cost almost nothing to make, can be kept at the value of gold by being supplied in the same quantity then it proves clearly that the value of gold itself does not depend upon the cost of its production, but this cost only affects the supply compared with the demand, and that even if the cost was wanting, when the supply was not increased compared with the demand, the value of gold would still remain the same.

Generally, the phenomenon of value is not imaginary, but nei-

ther is its existence perceptible through the senses. We are not conscious of the phenomenon of value, just as we are of the phenomenon of price in our daily life. But the existence of the former is undeniable. As the law of gravitation is to be certified logically, so value is a logical existence. Again, as the law of gravitation is ascertainable by the observation of the phenomenon of each motion, so the phenomenon is to be known by the phenomenon of each value. The phenomenon of value is a regulative and logical existence which controls each empirical phenomenon of value. It reflects itself in the mind, and operates through the mind, though it is actually no mere mental phenomenon. What we call a positive clarification of the phenomenon of value is in fact its direct effect which eventually will be leading to logical information on the relation of values. The positivistic Malthus tries to explain things as they are; only it must not be a mere description of things, but an attempt to clarify logically an inner relation of phenomenon. An actual proof should not take the place of such logical argument.

Now, it is the relation of demand to supply that determines value, as Malthus considers, and this argument has been inferred positively, as they say, and confirmed empirically. It is not price itself, but alteration in price that is determined by the relation. Then the determination of price itself will come to the fore, but it is no other question than of the decision of value. The fact is that there ought to exist theoretical problems behind practical problems of value which could be confirmed empirically. To this point did the Malthus's positivism seem to close its eyes. But Smith and Ricardo distinguished between market price and natural price, and as a matter of fact the former is the problem of price and the latter is that of value. That the former was taken as a temporary phenomenon came from the consideration of the fact that price changes continually according to alteration in the relation of demand to supply; and that the latter was thought permanent came from the consideration of what concerns value, existing behind the former's changes. As for Malthus, however, he considered that the law of demand and supply would determine not only market price, but also natural price. That is, the cost of production, which is generally considered to determine natural price, will influence the prices of commodities through the supply, as the payment of this cost is the necessary condition of their continued supply. He further says that even natural price is not exempt from the control by demand

and supply. It may be true that price thus is uniformly defined, but the essential meaning of price has been forgotten. In this connection, Ricardo states thus: Malthus forgets Smith's definition of natural price, otherwise he would not say that demand and supply could determine natural price; natural price is only another name for cost of production. Malthus argues that when the relation of demand to supply does not change, whether the cost of production rises or falls, there will take place no variation of price. That makes it the more necessary to know how it is that the relation of demand to supply changes, if it occurs. That is the point the theories of the cost of production, natural price and value are trying to account for. It is admitted by every body that demand and supply govern market price, but what is it that determines supply at a particular price? Ricardo too argues that it is the cost of production.²⁾ Pursuing positively, as is called, the phenomena of demand and supply, Malthus has failed to solve his subject in view. That the question of price thus cannot be handled merely along the line of the relation of demand to supply is just the reason why we ought to foresee the theory of value develop behind the question. Malthus tries to prove the absoluteness of the law of demand and supply by saying that the value of the inconvertible paper would be determined by the demand and supply of it, but the law is not the fundamental factor to decide the value of the paper. At the outset of his argument, Malthus was compelled to consider whether paper issue shall exceed or not the quantity of gold money, which shall circulate rightly without paper circulation. But the decision of value of the paper in that case is the first question to solve, and without it we could not define properly the value of the paper in general. Herein lies the standard upon which alterations of the value of the paper shall be regulated by the demand and supply.

However, Malthus did not mean to say that labour and the cost of production have nothing at all to do with prices; only they are the necessary conditions for the supply of commodities. Such a cost of production Smith calls the natural price. But Malthus calls it the necessary price, which means that it is necessary for carrying commodities regularly to the market. And these natural and necessary prices will be regulated by the principle of demand and supply as well as market prices. The only difference is that the former is regulated by the ordinary and average relation of demand to sup-

²⁾ D. Ricardo, Note on Malthus' "Principles of Political Economy", 1928, p. 19

ply, and the latter is determined by the extraordinary and accidental relation of demand and supply.

Therefore, Malthus does not mean to say that there is no such thing as natural price. When explained as Smith has done, it is not only an intelligible, but a useful term. If the natural price of a commodity be considered as composed 1) of all the money wages which have been paid for the specific kinds of labour required in the various parts of the process of producing the commodity, 2) of all the money profits of the other capital employed during the periods of various length for which they have been advanced, and 3) of all the money rent connected with the necessary materials and food obtained by the assistance of those powers of nature which belong to the soil — then, assuming that circumstances are in their ordinary and natural state and taxes are not imposed, this price and the ordinary and average prices of commodities will quite certainly be found to agree with each other. To the price, which is fairly and usefully called the natural, necessary, or ordinary price, the market prices are always going to agree. And this price determines the rates at which commodities are usually exchanged for each other. So understood, Malthus considers, nothing can be more simple, or more generally applicable.

As mentioned above, Malthus does not necessarily deny the idea of natural price, though he tried to neglect its ordinary meaning, in the structure of the determination of value. He considers that natural price is regulated by the ordinary and average relation of demand to supply, while market price is determined by the extraordinary and accidental relation. What will determine, then, the ordinary and average relation of demand to supply? Of a large number of relations, which will become ordinary and average? The relation itself does never determine itself naturally, as is called. It follows therefore that the relation is not an idea serving as a final definition of price. Malthus further says the natural price is a useful idea as well, considering that it is a price necessary for carrying regularly commodities to the market. It may certainly be a useful idea, but Malthus does not necessarily consider that such natural price or the so-called necessary price will be the foundation of the law of demand and supply.

Now, in Malthus's theory of value, the question of the determination of value will develop itself into the question of the measures of value, and herein also is found the undercurrent of his positivism. Here first of all he strictly distinguishes the causes of value

from the measure of value. He argues that the labour worked up in a commodity is the principal cause of value, but it is not a measure of it. The labour which a commodity will command is not the cause of its value, but the measure of it. A measure of value is wanted for two purposes. The first of them is to measure easily and conveniently the relative values of all commodities, comparing them with one another, and thus to enable all dealers to estimate the profits they may make when they sell the commodities. This purpose is completely satisfied by money. The second is to measure the difficulty with which a commodity is obtained, including all the conditions of its supply, and then to enable us to ascertain in which commodity and to what extent in each commodity the change has taken place when two or more commodities have in the course of time altered in their exchangeable relations to each other. This is the most important information, particularly concerning commodities in the same country at different times. As money, however, over a period of some length is liable to alter greatly in its exchangeable value which arises from intrinsic causes, it is impossible to use this information as a measure.

Malthus examines Smith's views on this question. The latter's argument that labour is a universal and accurate measure of value, the former considers, has introduced some confusion into the matter. Smith argues sometimes that the value of a commodity is determined by the quantity of labour which is employed in its production, and sometimes by the quantity of labour which it will command in exchange. It is on the latter sense however that Smith has laid stress, so says Malthus.

And when we consider, according to Malthus, the degree to which labour is fitted to be a measure of value in the first sense used by Smith, in other words, in reference to the quantity of labour which has been used in the production of a commodity, we shall find it radically defective. The reason has been explained on the following two points.³⁾

In the first place, Malthus says, a moment's consideration will show us that it cannot be applied in a positive sense. It is indeed almost a contradiction in words to say that the exchangeable value of a commodity is proportionate to the quantity of labour used on it. Exchangeable value, as the word means, is evidently value in exchange for some other commodities. When more labour, however,

³⁾ R. Malthus, *Principles of Political Economy*, 1st ed. pp. 85-88

is used on one commodity, and also more labour is used on the others for which it is exchanged, the exchangeable value of the first commodity cannot obviously be proportionate to the labour used on it. If, for instance, the labour of producing corn increases and at the same time the labour of producing money and many other commodities increases, it will be at once impossible for us to say that more or less value of all things be proportionate to more or less labour used in their production. Although in this case more labour has been used on corn, a bushel of corn will obviously exchange for no more money nor labour than before. Then it follows that the exchangeable value of corn has certainly not altered proportionate to the additional quantity of labour which has been employed in its production.

In the second place, even if we understand this measure in a relative sense, in other words, even if we think that the exchangeable value of commodities is determined by the comparative quantity of labour used on each, there exists no stage of society in which it will be found correct. In the very earliest periods, as a matter of fact, when not only land was in common, but also almost no capital was used to assist manual labour, exchange would be constantly made without reference to the quantity of labour which might have been employed for each commodity. Most of the objects exchangeable may be raw products of various kinds, such as birds, fish, fruits, etc., concerning which the effects of labour are always uncertain. One man might have engaged in five days' labour in obtaining an object which he would later be glad to exchange for some other object that might have cost a more fortunate labourer only two, or perhaps one day's endeavour. And this proportion between the exchangeable value of objects and the labour which was used in their production would have constantly occurred.

In addition, there is in fact almost no stage of society, however barbarous, as Malthus thinks, where the cost of production is confined exclusively to labour. Even at a very early period, profits will be found to enter largely into the question of exchangeable value as a necessary condition of supply. It is obviously necessary that even to make a bow and arrow wood and reed should be properly dried and seasoned. And the time during which these materials must be kept by the workman till his work is completed, introduces immediately a new element into the computation of value. We may estimate the labour used in any kind of capital just

on the same principle as the labour used in the direct production of a commodity. But, Malthus considers that the varying degree of quickness in which the returns are made is quite a new element, which is never related to the quantity of labour used on the capital, and moreover, in every period of society, whether the earliest or the latest, is the most important in the determination of the value of exchange.

Thus, according to Malthus, it is clear concerning intrinsic value in exchange that the value of the labour actually used in the production of a commodity, will never present or be proportionate to the value of the completed commodity, except in the rare case where the labour alone is used and the produce is carried immediately to the market. In the majority of cases, there are, in addition to the labour actually used, other intrinsic causes of value, which increase the difficulty of obtaining the desirable objects and act sometimes with great power. This truth can be easily found at any period and in any place, that is, the quantity of labour actually used in the production of commodities satisfies neither of the two great objects of a measure of value. The quantity of labour does not measure the rate at which commodities exchange, like money, with each other at the same place and time. It does not also measure the whole difficulty to be overcome or the sacrifice to be made in obtaining commodities at the same or different times and countries. And thus, when more than two commodities have varied in relation to each other, the quantity of labour does not enable us to say in which of them and to what extent in each the variations have taken place.⁴⁾

It is quite obvious that an attempt to define the formation of value in reference to the relation of demand to supply would lead us to a very great predicament. The fact is that, the unchangeableness of a measure of labour which Malthus sought after is difficult to be deduced from the relation of demand to supply, considering that the law of demand and supply is the principle of exposition on alterations. Malthus may well have roamed about seeking for a measure of labour. Malthus examined into embodied labour, therefore, coming back to the theory of a value of labour, from which he had started in his arguments. As mentioned above, however, it is difficult to consider the quantity of labour necessary for the production of commodities as a measure of value now that Malthus

⁴⁾ R. Malthus, *op. cit.* 2nd ed. pp. 92-93.

rejected the theory of a value of labour in regard to the formation of value, but the labour considered by Malthus being a separate labour, he would have reached a standstill in accounting for a measure of labour even if he had resorted to the theory of a value of labour.

Upon the principle that the labour which has been used in the production of a commodity is at the same time a measure of real and relative value, it may be considered in the formation of a measure of value that if any article were to be found which would at all times need the same quantity of labour in its production, it might be used as an accurate and standard measure of value. Malthus acknowledged however that precious metals have not this quality. As a matter of fact, the world has been supplied at different periods from mines of different degrees of productivity. This difference of productivity necessarily means that different quantities of labour are at different times required in the production of the same quantity of metal. Moreover, the different degrees of skill employed at different times in the working of mines are the source of variableness in the quantity of labour which has been employed to bring to the market a given weight of coin.

Any kind of regularity in the production of the precious metals, so considers Malthus, cannot possibly make the money prices of commodities a correct measure of the quantity of labour which has been used on them in the same or different countries and at the same or different times; not so even if all countries were in possession of mines of their own, and still less if most of them were obliged to purchase their money from other countries. How far the precious metals in such circumstances, however, may be a good measure of the exchangeable value of commodities is another question. The precious metals, in whatever way they may be obtained, are generally a correct measure of exchangeable value at the same time and in the same place. And it is certain that the less subject to variation are the ways of obtaining them, the more they come nearer to a measure of exchangeable value at different times and places. If each nation could at all times obtain them by the same quantity of labour without any advances of capital, then, with the exception of the temporary disorders occasioned by foreign trade and the sudden invention of machinery, the exchangeable value in money with regard to the labour which it would command, would be the same in all countries and at all times. In this supposed case, that is, in the case where the cost of precious metals in labour can ever

be the same as their exchangeable value in labour, money would certainly be of a uniform value, as it would at all times cost and command the same quantity of labour. Malthus has seen however that concerning those commodities where some kind of capital was used, their values compared with the precious metals or each other could never be proportionate to the labour which they have cost.

Here Malthus expected much from the precious metals as a measure of value, but it was under very limited conditions. The fact is that as Malthus has treated the precious metals too as a commodity his definition of a measure of value is not more than the definition of it according to the separate labour, overlooking thus the formation of money as a general form of equivalent. And particularly, the individual difference of value of precious metals, which Malthus referred to, from the mines of different degrees of productivity is the source of forming the so-called mine land-rent, and does not keep the precious metals from assuming a general form of equivalent.

Then, what about the commanded labour as a measure of labour? Malthus allowed as mentioned above that in the same place and in moderately short periods of time the precious metals are a satisfactory measure of the relative values of commodities. He also considered that what is true of the precious metals with respect to the relative and nominal values of commodities is true of commanded labour as well. For instance, in the same place and at the same time the different quantities of day labour which different quantities can command, will be exactly proportionate to their relative value in exchange. And if any two of them will buy the same quantity of labour of the same kind, they will invariably exchange with each other.

Malthus further extends the above argument in reference to labour to all kinds of commodities. Namely, in the same place and at the same time every commodity may be considered as an accurate measure of the relative values of others, and what has been said of labour may be said of woollen cloth, cotton, iron, etc. Any two commodities, which at the same time and in the same place will purchase or command the same quantity of woollen cloth, cotton, iron, etc., will have the same value or exchange with each other. This may be certainly true, if we take the same time precisely, but Malthus says that if we take different periods the comparison will utterly fail.

Groping among invested labour, precious metals, commanded

labour, woolen cloth, cotton, iron, etc. for an unchangeable measure of value, Malthus did not obtain a satisfactory object. The reason for this is that not only did he lay the basis of the formation of value on the relation of demand to supply, but also the labour he handled was no more than separate labour and he overlooked both the process in which a general form of equivalent is formed and the labour in that case. Malthus accordingly failed to develop the theory of a measure of value. He only entertained an idea that money practically makes a much better measure of value than any other commodity. The most important reason for it, Malthus says, is that the relation of money to common labour not only changes more slowly than woolen cloth, cotton, iron, etc., but as money has been adopted as the almost universal medium of exchange, its relation to labour must always be known to the inhabitants of that place. And while such a relation is known and remains unchanged, the money price of commodities will not only express their relation to each other, but also the difficulty of obtaining them, the conditions of their continued supply, and the supply compared with the demand in whatever state they may be. Malthus infers then that under such circumstances, that is, while the relation of money to labour is known and remains unchanged, money is a measure of both relative and intrinsic value in exchange.

According to Malthus, as mentioned above, in regard to commodities produced by labour alone and brought to market immediately, the labour used upon them must on an average be precisely the same as the labour which they will command. But the relations of all commodities to one another, however variously composed, are at the same time and in the same place in exact proportion to the quantity of labour which they will respectively command. Whether arising from the intrinsic cause of labour alone, or from labour combined in various proportions with profits, rent, and taxes, or affected by temporary scarcity or abundance, the value of any commodity in any case will be measured by the quantity of each period which it will command.

Malthus further considers that labour, like all other commodities, varies more or less in quantity compared with the demand for it, and at different times and in different countries it commands very different quantities of the first necessity of life. Furthermore, according to the different degrees of skill and assistance of machinery with which labour is used, the products of labour are not proportionate to the quantity of labour. It follows therefore that labour,

in any sense in which the word can be used, cannot be considered as an accurate and standard measure of real value in exchange.⁵⁾

Thus Malthus thinks that no commodity generally can be considered as a standard measure of real value in exchange. Corn and labour, however, might in some cases be a better measure of real value in exchange, than one alone, and yet be sufficiently manageable for practical application. Namely, a certain quantity of corn of a given quality, as Malthus considers, has always a definite and unchangeable value in use on account of its ability of supporting a certain number of human beings. But both real and nominal value of corn in exchange is subject to considerable variations in every century as well as every year. Our experience shows that population and cultivation do not always proceed with equal steps in spite of their mutual dependence on each other but are subject to remarkable changes in the velocity of their movements. Putting aside annual changes, corn seems sometimes to be dear for many years compared with labour and other commodities, and sometimes cheap for the similar periods compared with the same objects. Consequently, Malthus's positivism shows that every century as well as every year a given quantity of corn measures very imperfectly the quantity of the necessaries, conveniences, and amusements of life which any particular commodity will command in exchange.

Then Malthus argues that the same observation will be true of day-labour, the measure proposed by Adam Smith, that is, that labour also makes its value vary every century and accordingly cannot be every century an accurate measure of real value in exchange.

Malthus thus considers that these two objects, taken singly, cannot be considered as a satisfactory measure of value, but by combining the two we may perhaps approach a more accurate measure. The fact is that when corn compared with labour is dear, labour compared with corn must necessarily be cheap. Namely, at a period when a given quantity of corn will command the greatest quantity of the necessaries, conveniences, and amusements of life, a given quantity of labour will always command the smallest quantity of such objects. And at a time when corn commands the smallest, labour will command the greatest, quantity of them. If then we take a mean between the two measures above mentioned, Malthus says, we shall have a measure corrected by the contemporary

⁵⁾ R. Malthus, *op. cit.* 1st ed. p. 125 et seq.

changes in each in opposite directions. And this measure will then represent more justly than either of the two the same quantity of the necessities, conveniences, and amusements of life at the most distant periods and under all the varying circumstances to which the progress of population and cultivation is subject.

After hard work to seek after an invariable measure of value, Malthus reached as a conclusion a mean value of corn and labour. This was certainly his last resort. It is doubtful, however, whether corn and labour will always vary in different directions, and Ricardo also actually was opposed to this point.⁶⁾ The conclusion of course was not reached by Malthus with satisfaction. He therefore considered it with care afterwards, as the result publishing in 1823 his work, 'The Measure of Value (stated and illustrated, with an application of it to the alterations in the value of the English currency since 1790).'⁷⁾ Making again in this book a series of inquiries centered around Smith's views, he reached the conclusion that the labour which commodities will command may be considered as a standard measure of their natural and exchangeable value.⁷⁾ This is obviously different from the conclusion concerning a mean between corn and labour in the 1st edition of 'The Principles of Political Economy'. Considering the necessity of correcting this point, Malthus did so frankly in 'The Measure of Value', by saying with conviction that he was wrong in his views concerning a mean measure and the labour alone is the true measure. And thus the paragraph describing a mean measure was deleted in the 2nd edition of 'The Principles of Political Economy' as well. But he considers that labour as a measure of value is the commanded labour, the quantity of labour which a commodity commands is representing the conditions of its supply, that is, its natural value. Then it follows that a final and decisive factor in the formation of value is not such a commanded labour, but the relation of demand to supply, and therefore their dominion as to prices and value is absolutely universal. From this view-point, it might be said that 'The Principles of Political Economy' and 'The Measure of Value' share in the same idea. Malthus said in the latter: he did not think that the labour which a commodity would command could properly be considered as a standard measure of value, yet he thought it the nearest approximation to a standard of any object known. And thus the point

⁶⁾ D. Ricardo, Note, pp. 40-41.

⁷⁾ R. Malthus, 'The Measure of Value', 1823, p. V, p. 18, p. 23, pp. 59-61.

above-mentioned has been rendered the more obvious by 'The Measure of Value', so he argued. That is all the theory that he can reach by dint of his positive inquiries, as they are called.

Though Malthus professed to adopt positive inquiries based on experience, he did not take into due consideration the money which actually operated as a measure of value. He certainly admitted money to be a measure of value for commodities, but failed to consider it a perfect measure on the ground that its value was not invariable. The fact that the money, considered as money commodity, also is variable in value independent of the relation of demand to supply, will not make the money insufficiently satisfy its function as a measure of value. As the alteration in the value of money commodity has a simultaneous and equal effect on all kinds of commodities, the mutual relation of commodities represented in the values measured by the value of money commodity will not vary. Of course the prices of commodities, when their value would not vary in the process of their continuity in time, would fall if money value rises, and reversely rise if money value falls. But a definite money commodity will always act as a measure of value. The action of a definite money commodity as a measure of value is accounted for by the circumstance that commodities together with money commodity have been equalized in value. In addition, the money does not represent directly a given time of labour, but is concretely a money commodity. The money will be, therefore, not only a measure of value for commodities equalized in value, but also a standard of value as a given weight of metal. It is not as a measure of value, but as a standard of price, that the money is represented as a given weight of metal. As the gold of various quantities stand in the same relation to one another, however the value of gold may vary, the money will not lose its function as of a standard of price.

III. THE SIGNIFICANCE OF THE THEORY OF INCREASED WEALTH

Malthus's economical arguments, starting from the theory of value, have come to reveal their characteristics in handling the question of the accumulation of wealth. In this connection, he develops his arguments by inquiring what the most direct and effective stimulus is for a continued creation and increase of wealth. He treated, as the direct causes for the increase of wealth, the four factors of the increase of population, the parsimony, the fertility

of land, and the inventions to save labour. Explaining by the so-called 'method of variation' in the current theory of equilibrium the eventual effect that one factor alone will vary in the state of equilibrium; he has reached the conclusion that it is only over-saving which leads to overproduction. Even in this inference, Malthus tried to resort to a thorough degree to his method of positivism.

According to his inquiry, people are of the opinion that an increase of population, because population is the great source of consumption, will keep up the demand for an increase of produce, and accordingly be accompanied by a continued increase of supply. It may be readily allowed that a continued increase of population is a powerful and necessary element of increasing demand. But that the increase of population alone, or more properly speaking, the pressure of population against the limits of subsistence does not offer an effective stimulus to the continued increase of wealth, as Malthus thinks, can be confirmed by experience as well as by theory. Namely, where the right of private property is established and the wants of society are supplied by industry and barter, any individual's desire, to possess the necessities, conveniences and luxuries of life, however intense it may be, will never serve in their production, if there be nowhere an effectual demand for something which he possesses. That a man whose labour is his only possession has or has not an effective demand for produce is dependent upon whether his labour is or is not demanded by those who have the disposal of produce. And any productive labour can never be demanded unless the produce when obtained is greater in value than the labour which obtained it. In order to warrant the employment of more people in the production of a commodity, there must be something in the previous state of the demand and supply of the commodity in question or in its price, prior to and independent of the demand occasioned by the new labourers. Now it will probably be said that the increase of population will lower wages and by thus decreasing the costs of production will increase the profits of the capitalists and the encouragement to produce. Such a temporary effect may indeed take place, but Malthus says that it is evidently very strictly limited. The fall of wages, reaching a certain point, must needs not only stop the progress of the population but make it retrograde. And before this point is reached, the increase of produce occasioned by the labour of more persons will have so lowered its value and so reduced profits as to make the capitalists determine to employ less labour. Malthus therefore considered in theory that an in-

crease of population, when an additional quantity of labour is not required, will soon be checked by want of employment and the scanty support of those employed, and will not give the stimulus necessary for an increase of wealth in proportion to the power of production.

And Malthus says, if any doubts remain concerning the theory on this subject, they will surely be dissipated through experience. We can see almost always a striking confirmation of what has been advanced, if we cast our eyes on any nation of the world. Namely, almost universally, the actual wealth of all the countries we know of is very far short of their powers of production. And thus Malthus distinctly showed his interest in positive argument.¹⁾

Following population, Malthus makes inquiry into the accumulation of capital, or the saving from revenue to add to capital, considered as the second stimulus to the increase of wealth. It is certainly true that no permanent and continued increase of wealth can take place without a continued increase of capital. But Malthus argues that we must inquire what is the state of things which incites a nation to accumulate, and further inquire what is the state of things which tends to make that accumulation the most effective and lead to a further and continued increase of capital and wealth.

According to Malthus, it is no doubt possible by parsimony to devote at once a much larger part than usual of the produce of any country to the maintenance of productive labour. And it is quite true that the labourers employed in productive labour are consumers as well as those engaged in non-productive labour, and accordingly as far as the labourers are concerned, there would be a slight decrease in consumption or demand. But the consumption and demand occasioned by the workmen alone employed in productive labour can never furnish a motive for the accumulation and employment of capital. As for the capitalists themselves, the landlords, and other rich persons, they are, by the supposition, one in being parsimonious, and saving from their revenue and adding to their capital by doing away with their usual conveniences and luxuries. Under these circumstances, it is considered impossible that the increased quantity of commodities obtained by the increased number of productive labourers should find purchasers without such a fall of price as would probably sink their value below that of the outlay, or at

¹⁾ R. Malthus, *Principles of Political Economy*, 2nd ed. p. 311 et seq.

least reduce produce so as to diminish both the power and the will to save.

In this connection, however, we must take into account Say's theory of market. Although there may easily be a glut of particular commodities, as the theory says, there cannot possibly be a glut of commodities in general. The fact is that commodities being always exchanged for commodities, one half will furnish a market for the other half, and production being thus the sole source of demand, an excess in the supply of one article merely proves a deficiency in the supply of some other, and accordingly a general excess is impossible. This doctrine, however, appears to Malthus to be utterly groundless, and to contradict the principles which regulate supply and demand. Namely, it is by no means true that commodities are always exchanged for commodities. Many commodities are exchanged directly either for productive or for unproductive labour. And this mass of commodities, compared with the labour for which it is to be exchanged, may fall in value due to a glut just as any commodity falls in value due to a glut, compared with either labour or money. According to Malthus, in the supposed case, there would obviously be an unusual quantity of commodities of all kinds in the market owing to those unproductive labourers who would be converted by the accumulation of capital into productive labourers. The number of labourers as a whole being the same, however, and the power and will to buy for consumption among landlords and capitalists being by supposition decreased, commodities would necessarily fall in value compared with labour, and thus greatly lower profits and check further production for a little while. But this is just what is meant by the word glut, which in this case is plainly general and not partial.

Say and Ricardo appear to Malthus to have considered commodities as if they were so many mathematical figures, instead of articles of consumption, which must be in reference to the numbers and wants of consumers. His reason for it is that when in this case we compare the numbers and wants of consumers with each other, then a great increase of produce with wants diminished by parsimony must necessarily occasion a great fall of value estimated in labour, so that the same quantity of labour as before, would no longer command the same quantity, and both the power of accumulation and the motive to accumulate would be greatly checked.

It was thus considered by Malthus that if the labouring classes be thrown out of employment by pushing the conversion of revenue

into capital beyond a certain point, the adoption of parsimonious habits beyond a certain point may be accompanied by the most distressing effects at first, and by a marked depression of wealth and population afterwards. It is not of course meant to say that parsimony or even a temporary decrease of consumption is not often absolutely necessary to the increase of wealth. A state may certainly be ruined by consumption, and on this account a decrease of the actual expenditure may be necessary. Not only that, but when the capital of a country is deficient, compared with the demand for its produce, a temporary economy of consumption is necessary for the supply of capital which can alone offer the means of an increased consumption in future. What particularly Malthus wants to lay stress on is that no nation can possibly grow rich by an accumulation of capital which arises from a permanent decrease of consumption. The fact is that as such accumulation is beyond what is wanted for supplying the effectual demand for produce, a part of it would very soon lose both its use and value and cease to possess the character of wealth.

This view of Malthus's is very important. His argument against the theory of market is worthy of more attention, as theory is the representative argument of the classical school adopted by Say, Ricardo, James Mill, etc. Say and others advocated the general agreement between the demand and supply of commodities by supposing their mere production, while Malthus argued about both the general disagreement between demand and supply, and overproduction, arising from parsimony, that is, the accumulation of capital. However, the conversion of revenue into capital, that is, the accumulation of capital is merely the temporary switchover between demand and supply. This is the point against which Ricardo too tries to argue. Namely, he denies that the wants of the consumers are decreased by parsimony, arguing that they are transferred with the power to consume to another group of consumers.²⁾ By increase of capital from revenue he means an increase of consumption by productive labourers instead of by unproductive. And he says that consumption is as certain in one case as in the other, and the difference is only the quantity of production returned. As Ricardo says, parsimony serves only to the power of purchase from consumption to capital, causing as a whole no disagreement between demand and supply. That is, the harmonic circulation of demand and supply will never

²⁾ D. Ricardo, Note, p. 164, p.174.

be cut down by parsimony.

Due attention should be paid herewith to the fact that Malthus endeavoured to cut down the harmonic circulation in the theory of market. As a matter of fact, the destruction of harmonic circulation occasioned by the development of the capitalistic economy of the 19th Century and after has led to critical overproduction, and the intermittent occurrence of the destruction has come to expedite the business cycle. Though not neglecting from the first, but unable to account for the phenomenon, the classical theorists like Say, Ricardo, etc. tried to dispell its exposition out of the general theory on the ground that it was after all a temporary and partial phenomenon. The so-called positivist Malthus, however, that he is a man of a strong sense of actuality, admitting frankly the phenomenon as a general fact is surmised to have developed his theory as mentioned above.

In this connection, there are the three points of his theory to be taken notice of. First, it is the insecurity of Malthus's positivism, which has been originally the confirmation by empirical facts of a given or supposed theory. Instead, however, it is more important herewith how to theorize a given act, after which only the so-called actual proof comes to the fore.

Secondly, Malthus tries herewith to seek for not a temporary and partial alteration, but a permanent and general alteration. This is certainly distinct from other parts of his economics, which pays respect to an temporary and partial alterations. Though seeking for an permanent and general tendency as opposed to Malthus, herewith again was Ricardo opposed to Malthus by adversely stressing a temporary and partial alteration. And thus both of them proceeded with the solution of the question in their different ways. We have to be reminded hereby of the significance of the matter, instead of feeling any strangeness and queerness about their arguments. It is indeed a question of essential importance whether the capitalistic economy would make a harmonious procession without any contradiction or go on intermittently reproducing self-contradictions within it accompanied by critical overproduction. The significance of the question can be easily supposed by the circumstances that whether to approve or not the facts themselves is more worthy of consideration than the authenticity of the theory accounting for the facts.

Thirdly, that Malthus, by acknowledging the fact of general overproduction, raised an opposition to the theory of market, which

had been considered as if it were an axiom in the classical economics, is of great significance, though his arguments came to fail, and still more so as he was of an influential faction of the classical economics. Furthermore, the failure of Malthus's theory gave a greater impetus to the numerous attempts of the later times to argue about the fact of general overproduction, and thus these attempts, whether based on classical theories or not, have come to revise or abandon the classical theories as they wished.

Concerning the fertility of soil as a stimulus to the continued increase of wealth, Malthus assumed a negative attitude by saying that the fertility would not necessarily be a stimulus. This matter has been argued by him positively, as is called, in reference to the case of various countries. According to his actual study, it may be said that no instance has occurred in modern times of a large and very fertile country having made full use of its natural resources. On the other hand, it may be also said that there has been many instances of small and unfertile states having accumulated within their narrow limits, by means of foreign commerce, an amount of wealth greatly exceeding what could be expected from their physical capabilities. The fact is that many instances are found where the excellent fertility of land would give birth to the indolence of people, and thus check the increase of their wealth. For instance, the man who can obtain the necessary food for his family by two days' labour a week has the physical power of working much longer to obtain conveniences and luxuries than the man who must spend four days in obtaining food. If the facility of getting food, however, creates habits of indolence, this indolence may make him prefer the luxury of doing little or nothing to the luxury of possessing conveniences and comforts. And in this case, he may spend less time in working for conveniences and comforts and more scantily obtain them, than when he be obliged to use more industry in obtaining food. After trying to prove the subject practically in reference to the cases of various countries, Malthus has come to the following conclusion: The excellent fertility of these countries, instead of affording an adequate stimulus to a rapid increase of wealth and population, had produced, under the current circumstances in which they have been placed, some degree of indolence which has kept them poor and thinly populated after the lapse of ages; or, in general, the fertility of soil alone is not an adequate stimulus to the continued increase of wealth.

Lastly, may we consider inventions to save labour as a stimulus

to the continued increase of wealth? According to Malthus, inventions to save labour seldom take place to a great extent, except when there is a decided demand for them. They are the natural results of progress and civilization, and, in their more perfect forms, generally come to aid the land in its failing powers of production. The fertility of soil, being a gift of nature, exists whether it is wanted or not and therefore must often for many years exceed the power of fully using it. Inventions, which substitute machinery for manual exertions, being the result of the ingenuity of man and called forth by his wants, will rarely exceed those wants, as might be expected.

But, as Malthus argues, the same law applies to both fertility of land and inventions, both coming under the head of facilities of production. And in both cases, these facilities cannot be fully used unless the power of supply which they furnish be accompanied by an adequate extension of market. When a machine is invented, which, by saving labour, will bring goods to market at a much cheaper rate than before, the following is the most usual effect: as the commodity will be brought within the power of a much greater number of purchasers, the demand for the commodity will be extended so much so that the value of the whole goods made by the new machinery greatly exceeds their former value, and accordingly more hands, instead of fewer, are required in the manufacture, notwithstanding the saving of labour. It was therefore considered not easy by Malthus to appreciate an enriching power of the introduced machinery, or its tendency to increase both the value and quantity of domestic commodities.

The demand or market appeared to Malthus fundamentally to control advantages of both the fertility of soil and the technical improvement. But it is generally known that facilities of production have the strongest tendency to open markets, both at home and abroad. Under the actual circumstances, therefore, there are great advantages to be expected and little reason to worry about any permanent evil from the introduction of machinery. And Malthus further argues that the pre-eminent advantages derived from the substitution of machinery for manual labour must be greatly decreased without the extension of market and the increase of consumption. Namely, the fertility of land and the invention of good machinery will both confer a prodigious power of production. But neither of these great powers of production can be fully put into action, so Malthus considers, if the situation and circumstances, or the habits and tastes of society interrupt the opening of sufficient

market and an adequate increase of consumption.

This view of Malthus's is still opposed to Ricardo's. The latter comments thus: it is obvious that advantages are derived from the extension of market and foreign trade. Improvements in machinery with an extensive market abroad will be much more beneficial to us than improvements without these advantages. This is, however, not the subject in dispute, so argues Ricardo. What we want to know is whether improvements can be otherwise than beneficial to us under any circumstances.³⁾ The world therefore may be considered as a large country in regard to the use of machinery. So considered, Malthus has no objection to the most extensive use of machinery. Then, we do not see any reason why a people too living in the most limited district, which under some circumstances does not have any commerce with foreign countries, would not derive unmixed advantages from the accumulation of capital, improved fertility of soil, and inventions to save labour. To make them beneficial, as Malthus thinks, they must be accompanied by demand. As against this, Ricardo contends that as he thinks demand depends only on supply the means of obtaining abundance of commodities can never be otherwise than those facilities. Herewith again Malthus's theory was not able to refute the theory of purchase.

Thus has it been made clear that accumulation of capital, fertility of soil, and inventions to save labour, which are considered stimulating to production, all act in the same direction. And as they all tend to facilitate supply without reference to demand, as Malthus concluded, they could neither separately nor conjointly afford an adequate stimulus to the continued increase of wealth.

³⁾ D. Ricardo, Note, p. 194, pp. 197-198.

IV. R. MALTHUS AND J. M. KEYNES

Political economy aims to study empirical matters of economy, trying to find the laws which are in operation and govern over these matters. Or it is a mass of theories which, based on experience, are formed under a given supposition, and then principles which give interpretation, though abstract, to empirical facts in the real world. The interpretation is not to make a mere copy of the empirical facts, but to clarify in a general way the source from which their movements flow out. And economical arguments are not theoretical themselves, but so in giving a unified interpretation to individual facts in the actual world. It means on the other hand that they are of a positive character. By a positive character it is fundamentally not meant that any assumed theory should be confirmed by the evidence of empirical facts, but that the empirical facts should be interpreted above all things. Reality is reticent about itself; so there is no other way than to let theory speak about reality. Or, individual events are not always showing essential matters, and therefore the events may not be relied upon to judge the authenticity of theories. But practical economy being always inconsistent and variable, theories will account for the empirical facts of variable character, and sometimes, by revising themselves, interpret the altered realities. It might be said with reason therefore that the so-called positivism is not neglecting a theoretical study, but represents only one part of the study.

It is true that the political economy since the days of Adam Smith made an advance in its theoretical study when Malthus endeavored to complete its positive part. Should it be said, however, that the positivism displayed its due function? In his theory of value, Malthus transformed the matter of value into the matters concerning the relation of demand to supply in price. Price is an empirical fact, while value is a theoretical existence. Malthus ought to have accounted for the empirical facts of price by the theory of value. But in fact, he tried to explain the theoretical value by the empirical relation of demand to supply. That was his positivism. That is why he lost the significance of the theory of value. Meanwhile, he tried, by his so-called positivism, to seek for the other part of the empirical facts of variable character. The part is the fact of economic fluctuation. The theoretical study of value would not always make it difficult to solve the matters concerning the economic fluctuation, but Malthus's failure in the theory of value

happened to incite him further to study the economic fluctuation. He did so with good reason, because the economic fluctuation is indeed the best object in view for the so-called positivism to approach.

His theory of economic fluctuation played its most conspicuous part in the study of the factors which promoted the increase of wealth. Here the economic fluctuation has been studied which are caused by one factor when others are kept invariable by the method of variation. This made a forerunner of the dynamic theory to which a foundation was laid by J. B. Clark, J. Schumpeter, etc. The equilibrium reasoned by the theory of market might be considered to be its premise. Though Say's theory of market which was started by Smith's system of natural liberty was adopted by Ricardo, James Mill, etc., becoming thus the main current of the classical economics, Malthus, Smith's pupil as he was, owing to his strong sense of reality, tried to cut down the harmonic circulation of the theory of purchase by the theory of oversaving and thus acknowledged theoretically the reality of a general overproduction.

It is certain that variations since the panic of 1815 have undermined the foundation of the past theory. The evils of this panic made Robert Owen of England and S. Sismondi of France to denounce the contradiction of the capitalistic economy. In the 'Principles of Political Economy', Malthus developed the principles opposed to the theory of purchase and in the end of the book applied in his argument the principles to the difficult conditions of the working class after the year of 1815. Even Ricardo, in a chapter added to the 'Principles of Political Economy', 3rd edition, 1821, admitted that in the capitalistic society the introduction of machinery would not always bring benefits to the working class. Actual variations gave impetus to the revision of theories, this tendency being actively intensified by the so-called positivism, but a new theory was hard to be formed. English economics, pressed often by the necessity of solving actual problems, could not afford to re-establish a theory.

At the turn of this century, however, this theoretical question was carried over, for its solution, to the time after the World War I. The general panic after the World War I was indeed very similar to that after the Napoleonic wars one century ago. Here also, as ever before, there needs to be taken into consideration overproduction, its accompanying unemployment, and criticism on the theory of equilibrium in the classical economics. It is just Keynes who here played a Malthusian part. He, who was original-

ly a follower of the classical economics, came to be in opposition to its theory of equilibrium in connection with the solution of the question of employment after the war. He tried to approach the question like Malthus, giving more priority to demand or consumption than to supply.

The classical economics of Say and Ricardo have taught that supply creates its own demand.¹⁾ Accordingly an individual act of abstaining from consumption necessarily causes the labour and commodities thus released from supplying consumption to be invested in the production of capital wealth. The doctrine has been adopted by J. S. Mill as well. And, though not stated in its crude form by Marshall, Edgeworth, Pigou, etc., the doctrine has been made the basis of their theories.

According to Keynes, however, the effective demand of the whole of society which determines the amount of employment consists of a demand paid up for consumption and a demand paid up for investment, and the increase and decrease of the former will not necessarily be offset and made up by the reversely corresponding increase and decrease of the latter. It is the propensity of consumption that commands the demand for consumption, and it is the relation of marginal efficiency of capital to rate of interest that commands the demand for investment. It is necessary, therefore, to induce these three incentives for the enlargement of employment. When a country is growing in wealth somewhat rapidly, the further progress of this happy state of affairs is liable to be interrupted, in conditions of *laissez-faire*, by the insufficiency of the inducements to new investment. Given the social and political environment and the national characteristics which determine the propensity to consume, the well-being of a progressive state depends on the sufficiency of such inducements. They may be found either in home investment or in foreign investment, which together make up aggregate investment. In conditions where the quantity of aggressive investment is determined by the profit motive alone, the opportunities for home investment will be governed in the long run by the domestic rate of interest, while the volume of foreign investment is necessarily determined by the size of the favourable balance of trade. Thus, in a society where there is no question of direct investment under the protection of the state, the economic objects with which the govern-

¹⁾ J. M. Keynes, *The General Theory of Employment, Interest and Money*, 1936, pp. 18-19

ment should necessarily be preoccupied, are considered to be the domestic rate of interest and the balance of foreign trade. And this is just what was taken notice of by the Mercantilism, which had preceded the classical economics, and the reason why Keynes paid high tribute to the Mercantilists as his forerunner.²⁾

Particularly the Mercantilists' theory of the low-rate of interest is highly respected by Keynes. The doctrine says that the rate of interest is not self-adjusting at a level best suited to the social advantage but constantly tends to rise too high, so that a wise government wants to curb it by statute and custom and even by breaking the regulations of the moral law. This may be considered as a heretical doctrine by the classical economics, but just a correct view, so regards Keynes, repudiating a natural equilibrium.

Keynes also finds in Mercantilism the view repudiating the insufficiency of the propensity to consume, that is, under-consumption, which appears as the evils of unemployment. In this connection Barbon argued that prodigality was a vice that is prejudicial to man, but not to trade, and this Barbon's opinion, according to Keynes, was popularised by Bernard de Mandeville's 'Fable of the Bees'.

It is with good reason therefore that Keynes took notice of the theory of under-consumption advocated by Malthus in the Nineteenth Century, taking it as one of a series of such doctrines. J. A. Hobson and A. F. Mummery's work, 'Physiology of Industry' (1889), which is regarded by Keynes as a forerunner of the doctrine at the present time, might be said without exaggeration to be in the long run a revival of Malthus who was representing the zenith of the classical economics. As a matter of fact, Keynes was converted into a Malthusian protestant, so to speak, in protest against the Ricardian classical economics, and his work 'The General Theory of Employment, Interest, and Money', is indeed his proclamation of it. In his preface to the Japanese version of the work too, he has pointed out that Malthus is more significant at present than Ricardo. When Keynes discussed Malthus, he, quoting Malthus's letter addressed to Ricardo which rejected the theory of purchase and stressed the theory of underconsumption, stated that one could not rise from a perusal of that correspondence without feeling that the almost total obliteration of Malthus's line of approach and the complete domination of Ricardo's for a period of a hundred years has been a disaster to the progress of economics; and that if only Malthus,

²⁾ J. M. Keynes, *op. cit.* p. 335, p. 351, p. 358,

instead of Ricardo, has been the parent stem from which the Nineteenth Century economics had its start, what a much wiser and richer place the world would be to-day.³⁾ It certainly remains to be studied whether or not the question of Ricardo vs. Malthus of a hundred years ago has been quite solved at present as the question of Pigou vs. Keynes, but it is highly necessary that we should definitely grasp the purport of Keynes's economics and the part it plays. Outwardly it has appeared of itself pressed by the necessity of solving the question of post-war unemployment, but in reality it is none other than the struggle for establishing the theory which repudiates the theory of purchase that has been kept up by the classical economists for the past one hundred years. We are thus the more impressed by the slowness in the progress of political economy.

³⁾ J. M. Keynes, *Essays in Biography*, 1933, pp. 140-141, p. 144.